

UBAM – EM INVESTMENT GRADE CORPORATE BOND

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

Market Comment

- The year started with optimism with the roll-out of vaccines around the globe, and the decision of the US new administration to provide a huge stimulus package of USD 1.9 trillion to support activity.
- Expectations of a sharp rebound in the US economy rapidly led to fears of an acceleration of inflation, however, which in turn, resulted in a steepening of the US rate curve. The 2-year US Treasury rates went up by 4 bps to 0.16% while 10-year rates increased by 83 bps to 1,74%.
- In parallel, commodity prices also shot up. The CRB index rose by 10.2%, thanks notably to the rally in oil (Brent +22.7%) and in basic metals (copper +13.4%). Precious metals, however, underperformed, with gold down 10.0% and silver down 7.5%.
- Volatility picked up over the quarter, but overall, EM corporate bonds remained well supported as investors remained comfortable with credit fundamentals, and large inflows into the asset class were strong (+USD 29.1 bn into EM hard currency bonds, of which +6.8 bn in pure corporate-focused funds vs. 5.3 bn in pure sovereign-focused funds) even if these flows slowed in March.
- This led EM Investment Grade corporate bond spreads to tighten over the quarter by 32 bps to 177 bps.
- Total return performance was negative (-1.72%), however, as a result of the rise in US rates. Still EM IG corporate bonds were less impacted than EM sovereign IG bonds (-5.30%) or that US IG credit (-4.43%), thanks to their shorter duration.
- All regions delivered negative performance over the quarter. The Middle East (-1.1%) and Asia (-1.2%) outperformed. In contrast, Latin American issuers suffered the most (-3.8%), due to longer average interest rate duration (7.9 years vs. 5.5 years for the index as a whole).
- At a country level, the best performance came from Jordan (+0.3%), Poland (+0.3%), Indonesia (0.2%), the Philippines (0.2%) and Qatar (+0.2%). In contrast, Mexico (-5.4%), Thailand (-4.9%) and Colombia (-4.8%) underperformed.
- At a sector level, the best performance came from Financials (-0.2%), Infrastructure (-0.2%) and Real Estate (-0.7%). In contrast, Oil & Gas (-4.5%), Metals & Mining (-4.4%) and TMT (-3.3%) underperformed.



Performance Review

- Over the quarter, the fund returned -1.56% net of fees, ahead of the JP Morgan CEMBI Diversified High Grade Index* (-1.72%).
- Performance attribution shows that the fund outperformed by 33 bps.
- In relative terms, the fund benefited primarily from its credit selection (carry spread and spread effect +92 bps) as well as from its duration positioning. In contrast, its interest rate curve positioning proved costly.
- Main contributors to relative performance, excluding the effect of our interest rate duration/curve positioning which is managed at portfolio level:
 - Country-wise, the best performance came from our overweight in Hong Kong as well as from selection in Korea, Mexico and the Philippines. In contrast, our off-benchmark allocation in Morocco and our selection in Colombia, Russia and the UAE proved costly.
 - Sector-wise, the best performance came from our selection in Financials and Industrials. In contrast, our overweight in Metals & Mining weighed on relative performance.

**Index provided for comparison and information purposes only. The fund has no official benchmark.*

Portfolio Activity

- Over the quarter, our scorecard remained in “dynamic” territory, as despite the rise in US rates, we remained comfortable on EM corporate fundamentals.
- We increased holdings in the Middle East and Latin America at the expense of African and Asian issuers.
- In the Middle East, we increased exposure to the UAE (Utilities, Financials) and Qatar (Financials).
- In Latin America, we increased our holdings in Utilities in Peru, Mexico and Colombia.
- In Africa, we reduced holdings in South Africa (Metals & Mining).
- In Asia, we reduced our exposure to Hong Kong (Utilities), China (Financials, Utilities) and the Philippines (Financials). In contrast, we added to our holdings in India (Financials, Oil & Gas) and to Singapore (Utilities).
- At a sector level, we increased exposure primarily to Financials, Consumer companies and Utilities. In contrast, we reduced our positions in TMT and Metals & Mining.



Outlook

- Despite some delays in the roll-out of vaccines across the world, the global economy is expected to rebound sharply this year thanks notably to the large support packages that many countries have pledged. This rebound should be faster in Emerging Markets, led by Asia, than in Developed Markets.
- EM IG corporate fundamentals remain solid, with notably less leverage than in the US.
- In parallel, and despite the rise in US rates, investors are expected to continue to look at EM debt as an asset class of choice providing attractive carry. This should lead to new inflows as experienced in the first quarter of 2021.
- EM Investment grade bonds, which offered a yield of 2.98% for a duration of 5.6 at the end of March, appear particularly well positioned vs US investment grade credit, with a similar yield of 2.97% for a much longer duration of 8.7 which makes them vulnerable to the risk of further steepening of the US curve.
- Moreover, EM IG corporate bonds continue to demonstrate lower volatility and higher Sharpe ratios than EM IG sovereign debt or US IG bonds, which contributes to their attractiveness.

- At a regional level, we are overweight in Europe and underweight in the Middle East & Africa.
- At a country level, our largest overweight positions are in China, India, Russia, and Indonesia.
- Our largest underweights are in Qatar, Korea, Singapore and Chile.
- At a sector level, our largest overweight positions are in Real Estate, Metals & Mining and Consumer companies. Our largest underweights are in Financials, Utilities and Diversified companies.

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